



Service Review and Audit of the El Camino Hospital District

Submitted by:
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Service Review & Audit Scope

Two main project components:

- **Service Review:** State law, LAFCo Policies and Service Review Guidelines
- **Limited Scope Audit:** USGAO *Government Auditing Standards*

Primary objectives: to determine whether -

- El Camino Hospital District is providing services outside of its boundaries
- The District should continue to exist and/or continue to receive public funds.
Could another entity provide the District's services more efficiently?

Respond to specific questions posed by LAFCo:

- Summarized in Executive Summary and at the end of each report section

Project Activities

- Entrance conference with El Camino Hospital District officials held on December 12, 2011
- Interviews with District and Corporation staff
- Research of State laws and policy framework
- Analysis of financial statements and transactions
- Analysis of hospital services, patient catchment areas, and community benefit expenditures
- Attendance at CALAFCo University Course: “Understanding Health Care Districts and the Role of LAFCo”
- Production of draft and final report, after holding an exit conference with District and Corporation representatives on May 15, 2012

Overview of Report Conclusions

- The El Camino Hospital District, the Corporation and four affiliated organizations, while legally separate, effectively operate as a single entity from governance, administrative, financial and public accountability perspectives.
- District taxpayers have provided property taxes for the acquisition, construction, maintenance and debt service for the El Camino Hospital Mountain View campus.
- Although permitted by State law, the majority of inpatient services are provided to non-District residents, who do not pay property taxes to the District. This condition will likely be exacerbated by the purchase and operation of the Los Gatos campus.
- Generally, community benefits are not targeted toward District residents and are instead used to support the broader healthcare mission of the Corporation.
- The District and Corporation do not distinguish themselves by the amount expended on community benefits, when compared to other hospital and healthcare districts in the State or other hospitals in the County.
- El Camino Hospital District, the Corporation and affiliated entities have been able to accumulate significant unrestricted net assets over the last five years, which provided the Corporation with the financial capacity to purchase Los Gatos Hospital.

El Camino Hospital District



Audit

ECHD & Corporation Relationship

- ❑ For financial reporting purposes, the District is shown as a single entity comprised of component units that include the Corporation and all other affiliated organizations.
 - ❖ “GAAP directs those who prepare financial statements to look beyond the legal barriers that separate these various units to define each government’s financial reporting entity in a way that fully reflects the *financial accountability* of the government’s elected officials.”
 - ❖ Criteria:
 - Appointment of the entity’s governing board by the primary government
 - Fiscal dependency on the primary government
 - When exclusion would lead to misleading financial reporting
- ❑ The governing boards are essentially the same since a 1996 restructuring that defined the District as the “sole member” of the Corporation
- ❑ Corporation has benefited from asset transfer, tax contributions and the availability of public debt instruments used to finance Mountain View campus improvements
- ❑ Budget presentation to the Board(s) is exactly the same for the District and Corporation with little regard to 1) differentiation between the various units, 2) budgetary control, or 3) public disclosure.

ECHD & Corporation Relationship

Other Evidence of Organizational Integration:

- ❑ Moody's downgraded the ***District*** in May 2011 due to the significant turnover in the ***Corporation's*** executive management and because the FY 2009-10 ***Corporation*** operating performance and financial indicators were affected by the Mountain View campus rebuild and the Los Gatos purchase
- ❑ Corporation meets all tests requiring Brown Act public disclosure
 - Created by a legislative body to exercise authority that may be delegated to the private corporation or entity - GC Section 54952(c)(1)(A)
 - Provides some funding to the private corporation or entity and appoints one of its members to serve as a voting member of the entity's board of directors – GC Section 54952 (c)(1)(B)

District Financial Assessment

- The Corporation received a net asset transfer of \$175.5 million in 1992
- The Corporation continues to receive access to discounted municipal debt financing, which it can access due to its affiliation with the District and status as a non-profit public benefit corporation
- Financial indicators show that the District, the Corporation and its affiliated entities were performing well and was in a relatively strong financial position, as of June 30, 2011
- Outlook for FY 2011-12: District continues to strengthen based on financial status update presented February 8, 2012.
- The Corporation continues to receive significant property tax contributions from the District.

ECHD & Corporation Relationship

Financial Benefits Related to Public Agency Standing

- ❑ Property Tax Share
 - Portion of 1% Ad Valorem
 - Debt Service on 2003 General Obligation Bonds (\$148 million) to construct new Mountain View Hospital
 - Combined receipts of between \$15 million and \$16 million per year.

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
One Percent Ad Valorem						
Restricted for Capital Use	\$ 3,368	\$ 2,830	\$ 3,510	\$ 3,207	\$ 3,046	\$ 15,961
Unrestricted	5,782	5,858	5,732	5,893	4,935	28,200
General Obligation Bonds Debt Service	6,643	6,920	6,658	5,692	5,041	30,954
Totals	\$ 15,793	\$ 15,608	\$ 15,900	\$ 14,792	\$ 13,022	\$ 75,115

ECHD & Corporation Relationship

Financial Benefits Related to Public Agency Standing

- The District has transferred over \$105 million to the Corporation over the past five years, including:
 - ✓ \$17.7 million for debt service
 - ✓ \$13.7 million for community benefit
 - ✓ \$21.2 million for specified capital improvements
 - ✓ \$52.5 million in surplus cash transfers, designated for capital improvements and made to avoid being in violation of the Gann Appropriation Limit

	Fiscal Year					Five Year
	2010-11	2009-10	2008-09	2007-08	2006-07	Total
Debt Service						
Interest Payments	\$ 4,897	\$ 4,859	\$ 4,655	TBD	TBD	\$ 14,411
Principal Reduction	1,384	1,223	726	TBD	TDB	3,333
Community Benefits Transfer	2,025	5,731	5,403	-	500	13,659
Capital Expense Transfer	-	12,458	6,253	-	2,479	21,190
Surplus Cash Transfer	-	-	12,000	-	40,468	52,468
Totals	\$ 8,306	\$ 24,271	\$ 29,037	\$ -	\$ 43,447	\$ 105,061

District Financial Assessment

Consolidated Financial Metrics (In thousands)

	June 30,					July 1,
	2011	2010	2009	2008	2007	2006
Net Assets:						
Invested in Capital Assets	\$ 355,469	\$ 374,598	\$ 314,571	\$198,162	\$282,667	\$206,837
Restricted	9,812	5,302	8,166	7,001	201,812	6,173
Unrestricted	440,070	342,178	362,670	424,342	63,879	256,492
Total Net Assets	805,351	722,078	685,407	629,505	548,358	469,502
Available Cash and Investments*	408,703	285,317	396,526	500,733	356,306	252,797
Annual Operating Revenues	622,640	554,793	508,846	460,952	409,960	
Annual Operating Expenses	577,102	550,991	461,351	407,817	364,268	
Net Non-Operating Revenue (Expenses)	37,735	32,869	8,407	28,012	33,164	
* As reported by the District in the Management Discussion and Analysis (unaudited).						

The Corporation is in a strong and strengthening financial position, with the consolidated entity holding \$440 million in unrestricted net assets as of 6/30/2011, of which \$409 million was in cash (cash reserves of more than 70% of annual operating expenses).

Financial Audit Conclusions

- ❑ The District and the Corporation are effectively one consolidated entity from a governance and financial perspective
- ❑ As a result of the \$175.5 million net asset transfer the Hospital Corporation received from the District in 1992, the Corporation's strong financial health is better than it would otherwise be
- ❑ The Corporation continues to be well served by receiving benefits typically reserved for public agencies, including the receipt and use of property tax, and access to discounted municipal financing
- ❑ The Corporation continues to receive surplus cash infusions from the District, amounting to at least \$52.5 million in the past five years -- roughly equivalent to the \$53.7 million purchase price of the Los Gatos hospital
- ❑ The Corporation is in a strong and strengthening financial position, with the consolidated entity holding \$440 million in unrestricted net assets as of 6/30/2011, of which \$409 million was in cash (cash reserves of more than 70% of annual operating expenses).

Service Review

Legal/Policy Foundation

CA Health & Safety Code Section 32000-32492: Local Health Care District Law

- ❑ Original (1945) intent: Give rural, low income areas without hospital facilities a source of tax dollars to construct and operate community hospitals and health centers
- ❑ Amended many times, mostly to expand districts' powers and discretion regarding the provision of services
- ❑ Section 32121 ("Powers of local hospital districts):
 - (i) "To do **any and all things**...for the benefit of employees of the health care facility or residents of the district."
 - (j) "...**at any location within or without the district** for the benefit of the district and the people served by the district." (continued)

Legal/Policy Foundation

CA Health & Safety Code Section 32000-32492: Local Health Care District Law (Cont.)

❑ Section 32121 (“Powers of local hospital districts”):

(k) “To do any and all other acts and things necessary to carry out this division.”

(m) “To establish, maintain, and operate, or provide assistance in the operation of, free clinics, diagnostic and testing centers, health education programs, wellness and prevention programs, rehabilitation, aftercare, and any other health care services provider, groups, and organizations that are necessary for the **maintenance of good physical and mental health in the communities served by the district.**”

(o) “To **establish, maintain, and carry on** its activities **through one or more corporations**, joint ventures, or partnerships for the benefit of the health care district.”

(p) **To allow asset transfers to corporations and delineates requirements.**

ECHD Mountain View Service Profile

- El Camino Hospital utilization averages 62.5% for all services, although percentage utilization varies by individual service.

El Camino Hospital Inpatient Capacity and Utilization by Unit – 2010

Unit	Licensed Beds	Patient Days	Average Daily Census	Percent Utilization
Medical/Surgical	180	41,490	113.7	63.2
Perinatal (Obstetric)	44	10,458	28.7	65.2
Pediatric	7	123	0.3	4.3
Intensive Care	24	6,836	18.7	77.9
Neonatal ICU	30	4,297	11.8	39.3
General Acute Care	285	63,204	173.2	60.8
Acute Psychiatric	25	7,542	20.7	82.8
Total Beds	310	70,746	193.8	62.5

Note: The table reflects a 99 licensed medical/surgical beds reduction, scheduled to take effect in 2012.

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

ECHD Mountain View Service Comparison



- El Camino Hospital provides 9.4% of hospital services in the County, compared with having 8.9% of licensed acute beds and 8.1% of excess capacity.

Countywide Comparison of Capacity and Service Utilization

Hospital Unit	<u>Average Daily Census</u>		Percent
	County-wide	ECH-MV	
Medical /Surgical	1,262.2	113.7	9.0%
ICU / CCU	242.3	18.7	7.7%
Perinatal (Obstetric)	185.9	28.7	15.4%
NICU	146.1	11.8	8.1%
Total Acute ADC	1,836.5	172.9	9.4%
Licensed Acute Beds	3,017.0	268.0	8.9%
Excess Capacity / (Deficiency)	1,180.5	95.1	8.1%
Percent Utilization	60.9%	64.5%	

Source: OSHPD ALIRTS Facility Utilization Statistics, 2010

Inpatient Geographic Distribution

Inpatient Address at Discharge	Cases	Percent	Cum Percent
Within the District	7,331	43%	43%
Within the SOI	1,199	7%	50%
<u>Other County/State/Outside State</u>	<u>8,418</u>	<u>50%</u>	<u>100%</u>
Total	16,948	100.0%	

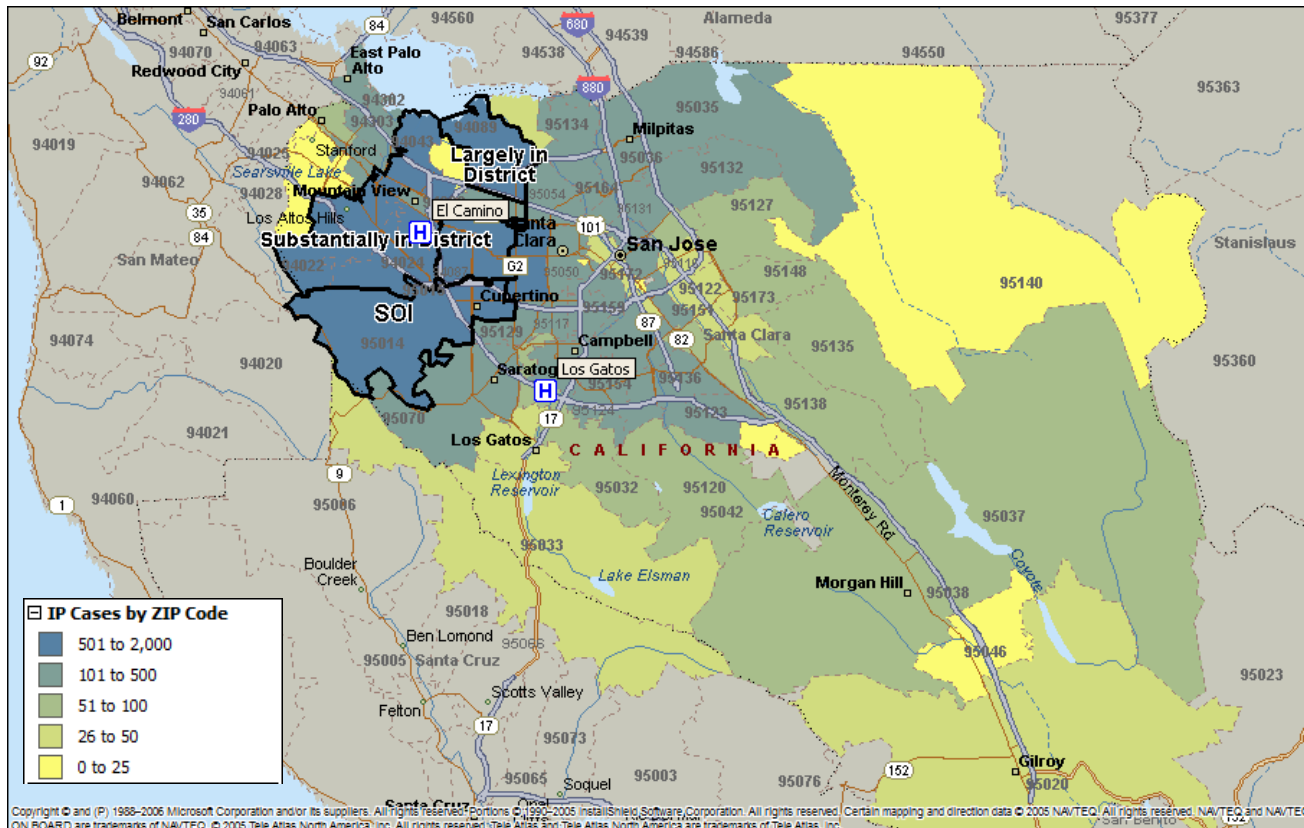
Source: El Camino Hospital District

- Approximately 43% of inpatients are located within the District.
- Approximately 50% of inpatients are located within the District or its Sphere of Influence
- Generally, hospitals consider 60% to 75% of their patients to originate from within their “primary service area.”
- State data suggests that ECHD has consistently captured about 40% of market share in the areas that it serves.

Inpatient Discharges



El Camino Hospital Inpatient Discharges by Zip Code (CY2010)



Source: El Camino Hospital District data compared against OSHPD data for prior fiscal year.

Emergency Room Geographic Distribution



Emergency Room Patient Address	Visits	Percent	Cum Percent
Within the District	22,586	53%	53%
Within the SOI	2,960	7%	60%
<u>Other County/State/Outside State</u>	<u>16,660</u>	<u>40%</u>	<u>100.0%</u>
Total	42,176	100.0%	

Source: El Camino Hospital District

- Approximately 53% of emergency room patients originate from within the District.
- Approximately 60% of emergency room patients originate from within the District or its Sphere of Influence
- Because of the emergent nature of services, expectation is that visit data would draw from a tighter geographic area

Projected Population and Service Growth



Santa Clara County 5-Year and 7-Year Inpatient Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	17,776	17,596	17,417	17,240	17,065	16,891	16,720	16,550	-5.0%	-6.9%
18-64	76,773	77,759	78,757	79,769	80,793	81,830	82,881	83,945	6.6%	9.3%
65+	46,704	48,335	50,022	51,768	53,575	55,445	57,381	59,384	18.7%	27.1%
All Pop	143,266	145,702	148,210	150,792	153,449	156,184	159,000	161,898	9.0%	13.0%

El Camino Hospital 5-Year and 7-Year Population Projections by Age Cohort

Age Group	2012	2013	2014	2015	2016	2017	2018	2019	5 yr % Change	7 yr % Change
0-17	2,765	2,784	2,803	2,822	2,842	2,861	2,881	2,901	3.5%	4.9%
18-64	12,979	12,986	12,994	13,001	13,009	13,016	13,024	13,032	0.3%	0.4%
65+	9,205	9,452	9,705	9,965	10,233	10,507	10,789	11,078	14.1%	20.3%
All Pop	24,948	25,221	25,502	25,789	26,083	26,385	26,694	27,011	5.8%	8.3%

Although Santa Clara County inpatient volume is expected to increase by 9.0% over five years, El Camino Hospital inpatient volume is only expected to increase by 5.8%

Service Review Conclusions

Excess Capacity Even with Projected Population Growth

- The County of Santa Clara has excess capacity for many services, estimated to be over 291 Medical/Surgical, 80 ICU/CCU, 188 Obstetrics and 72 NICU beds, based on 2010 discharge and licensure data at a target utilization rate of 85 percent.
- El Camino Hospital has a general acute care inpatient utilization rate of 64.5 percent. Although utilization varies by service, the ECH has substantial excess capacity in the Hospital's Medical/Surgical and Neonatal ICU units.
- On a Countywide basis, El Camino Hospital provides about 9.4 percent of total inpatient services. While ECH has 8.9 percent of all licensed beds in the County, it has 8.1 percent of excess capacity.
- Given the population profile of Santa Clara County and hospital utilization rates by age cohort, Countywide inpatient hospital demand is expected to increase by between 9.0 percent and 13.0 percent over the next five to seven years. For El Camino Hospital, demand is expected to increase by between 5.8 percent and 8.3 percent over the same period.
- With the exception of ICU beds, it is unlikely that growth in local demand will lead to capacity concerns at the Mountain View hospital. Excess capacity is likely to remain in most services, since the Hospital is considering a project to relocate physician offices in the Women's Hospital to make approximately 40,000 square feet available for inpatient use.

Service Review Conclusions

Large Proportion of Services Provided Outside of the SOI

- Healthcare District law does not restrict services to a specific territory and, instead, allows health care districts to serve individuals who reside outside of district boundaries.
- With the exception of the Los Gatos Hospital campus and two dialysis centers located in San Jose, all El Camino Hospital District facilities are located within jurisdictional boundaries.
- Approximately 43 percent of **inpatient** services provided by El Camino Hospital are for persons who reside within the District. Approximately 7 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Another 38 percent originates from the rest of the County and an additional 12 percent originates from locations outside of the County.
- Approximately 54 percent of El Camino Hospital **emergency** department services are provided to persons who reside within the District. Approximately 6 percent are for persons who reside within the SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Another 29 percent of service volume is provided to patients who originate from the rest of the County and an additional 11 percent to those who originate from locations outside of the County.

Service Review Conclusions

Market Share Consistent Across District Boundaries and SOI

- El Camino Hospital Mountain View captures approximately 40% of the market share within the District and the SOI that includes all zip code territory within Sunnyvale and Cupertino.
- Patients in these catchment areas seek about 90% of their inpatient care from within the County, predominantly from El Camino Hospital Mountain View, Stanford, and the two Kaiser facilities.
- The El Camino Hospital in Mountain View receives some “in-migration” of inpatient volume from the Los Gatos area . This in-migration volume totaled 1,971 cases in FY 2010, or about 5.6 percent of the area’s total cases in that year. This share grew slightly from 5.4 percent of the area’s volume in FY2008.

Community Benefits

Community Benefit

Hospital District Requirements – CA Law

SB 697 (1994) defines Community Benefit as “a hospital’s activities that are intended to address community needs and priorities primarily through disease prevention and improvement of health status, including, but not limited to, any of the following:

- a) Health care services rendered to vulnerable populations
- b) The unreimbursed cost of services
- c) Financial or in-kind support of public health programs
- d) Donation of funds, property, or other resources
- e) Health care cost containment.
- f) Enhancement of access to health
- g) Services offered without regard to financial return
- h) Food, shelter, clothing, education, transportation, and other goods or services that help maintain a person's health.

Community Benefit

Charitable Hospital Requirements – IRS Law

- ❑ IRS Revenue Rulings 69-545 & 83-157 define “Community Benefit Standard” to determine charitable status of hospitals:
 - a) Governing body of the hospital is composed of independent members of the community
 - b) Medical staff privileges in the hospital are available to all qualified physicians in the area
 - c) Hospital operates a full-time emergency room open to all regardless of ability to pay
 - d) Hospital otherwise admits as patients those able to pay for care, either themselves or through-third party payers such as private health insurance or government programs such as Medicare
 - e) Hospital’s excess funds are generally applied to expansion and replacement of existing facilities and equipment, amortization of indebtedness, improvement in patient care, and medical training, education and research

Community Benefit



Total Community Benefit Provided by El Camino Hospital FY 2011

Government-sponsored health care (unreimbursed Medi-Cal care)	\$23,639,790
Subsidized health services funded through hospital operations	\$20,616,112
Financial and in-kind contributions	\$4,002,154
Traditional charity care funded through hospital operations	\$2,772,576
Community Health Improvement Services	\$1,857,998
Health professions education funded through hospital operations	\$1,171,764
Clinical research funded through hospital operations	\$402,216
Community benefit operations funded through hospital operations	\$185,830
Government-sponsored health care (means-tested programs)	\$150,000
Total Community Benefit, FY 2011	\$54,798,440

In total, \$47.2 million of \$54.8 million, or 86.1% of all reported ECH-MV Community Benefit, is for uncompensated care, including both District and Hospital Contributions.

Community Benefit



District-funded Community Benefit FY2011

Community health improvement services (community health education, community-based clinical services, health care support services) provided at Mountain view location – includes Partners for Community Health (PCH) programs	\$1,603,074
Financial and in-kind contributions (cash donations, grants, sponsorships) provided at Mountain View location – includes PCH programs	\$3,361,624
Government-sponsored health care (means-tested programs) provided at Mountain View location – includes Healthy Kids, a PCH program	\$75,000
Total District-funded Community Benefit, FY 2011	\$5,039,698

Of the total \$54.8 million in total community benefits, the District directly funds approximately \$5.0 million.

Community Benefit



Comparison to Other California Healthcare Districts

Healthcare District Name	Hospital Name (affiliations shown in parentheses)	Fiscal Year	Operating Expenses	Uncompensated/ Charity Care	Uncompensated/ Charity Care as % of Operating Expenses	Other Community Benefits	Other Community Benefits as % of Operating Expenses	Total Community Benefit*	Total Community Benefit* as % of Operating Expenses
El Camino	El Camino Hospital	2011	577,102,000	47,178,478	8.2%	7,619,962	1.3%	54,798,440	9.5%
Marin	Marin General Hospital	2010	318,900,333	25,673,633	9.3%	3,984,098	1.2%	29,657,731	9.3%
Eden Township	Eden Medical Center (Sutter)	2010	(see Sutter)	25,730,000	(see Sutter)	2,295,000	(see Sutter)	28,025,000	(see Sutter)
	Sutter	2010	8,431,000,000	625,000,000	7.4%	126,000,000	1.5%	751,000,000	8.9%
Mark Twain	Mark Twain Hospital (CHW)	2010	(see CHW)	2,933,195	(see CHW)	159,806	(see CHW)	3,093,001	(see CHW)
Sequoia	Sequoia Hospital (CHW)	2010	(see CHW)	6,433,824	(see CHW)	1,794,795	(see CHW)	8,228,619	(see CHW)
	Catholic Healthcare West "CHW"	2011	10,367,804,000	698,902,000	6.7%	248,150,000	2.4%	947,052,000	9.1%
Petaluma	Petaluma Valley Hospital (St. Joseph)	2010	(see St. Joseph)	9,065,000	(see St. Joseph)	15,000	(see St. Joseph)	9,080,000	(see St. Joseph)
	St. Joseph	2011	4,031,603,000	288,834,000	7.2%	30,088,000	0.7%	318,922,000	7.9%
Grossmont	Grossmont Hospital (Sharp)	2010	unavailable	81,625,224	unknown	2,369,048	unknown	83,994,272	unknown
Mount Diablo	John Muir Medical Center (John Muir Health)	2010	unavailable	24,212,000	unknown	15,025,000	unknown	39,237,000	unknown
Fallbrook	Fallbrook Hospital	No Community Benefit Report Produced							
Desert	Desert Regional Medical Center (Tenet)	No Community Benefit Report Produced							
Peninsula	Mills-Peninsula (Sutter)	No Community Benefit Report Produced							

El Camino Hospital District and Corporation community benefit contributions fall within the range of the five hospitals for which comparison information was available (four of the five hospitals contributed between 8.9% and 9.5% of annual expenditures spent on Community Benefits, with El Camino at 9.5%)

Community Benefit Comparison



Percent Medi-Cal Days by Local Hospital

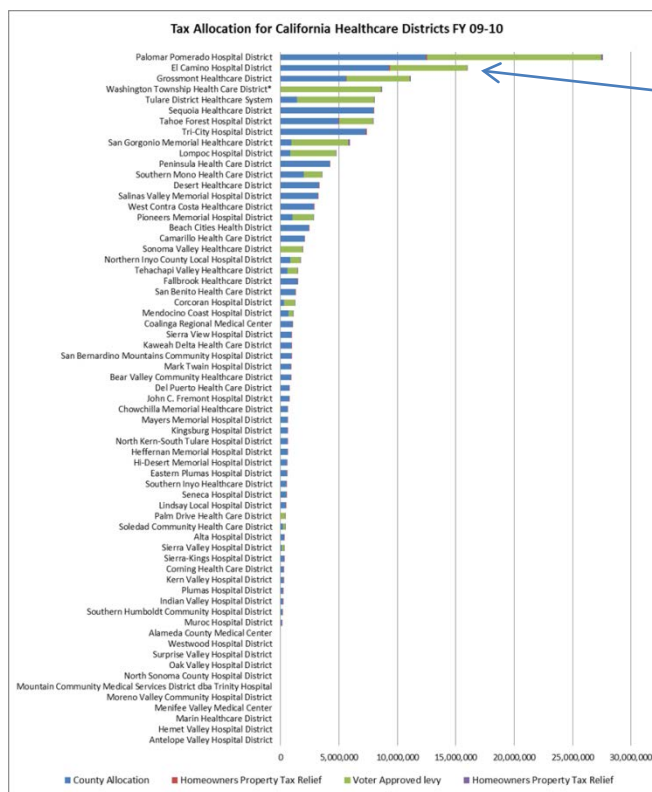
Facility	Medi-Cal Days	Total Days	% Medi-Cal Days
KAISER FOUNDATION HOSPITAL - SANTA CLARA	1,778	88,874	2%
KAISER FOUNDATION HOSPITAL - SAN JOSE	1,446	50,285	3%
EL CAMINO HOSPITAL	4,832	79,939	6%
GOOD SAMARITAN HOSPITAL- SAN JOSE	6,783	82,942	8%
STANFORD UNIVERSITY HOSPITAL	18,200	134,394	14%
O'CONNOR HOSPITAL	11,463	59,098	19%
REGIONAL MEDICAL CENTER OF SAN JOSE	11,608	56,433	21%
ST. LOUISE REGIONAL HOSPITAL	2,617	12,496	21%
SANTA CLARA VALLEY MEDICAL CENTER	62,801	123,551	51%
Grand Total	121,528	688,712	18%

The ECHD budget presentation lists a significant disruption to area safety net hospitals as among the top 5 financial risks facing the institution, since such reductions could result in more Medi-Cal or uninsured patients receiving care at El Camino Hospital.

Community Benefit Comparison



- ❑ ECHD receives more property tax revenue than all but one district in the State, with two-thirds spent on debt service and capital improvements and one-third spent on community benefits



El Camino Hospital District

Community Benefit Comparison

- ❑ 11 of the 73 healthcare districts operating in CA as of February 2012 (including ECHD) had sold or leased their hospitals to a non-profit or for-profit corporation
 - ❑ ECHD is unlike most other districts – each of the other 10 districts sold or leased their hospitals to multi-hospital systems (i.e., Sutter, Catholic Healthcare West)
 - ❑ El Camino Hospital's computed community benefit*, as a percentage of operating expenses, fell within the range of the five hospitals for which comparison information was available (four of the five hospitals contributed between 8.9% and 9.5% of annual expenditures spent on Community Benefits, with El Camino at 9.5%)
 - ❑ For the most part, El Camino Hospital District Community Benefit programs are provided to all patients and are not targeted toward District residents, even though such programs are paid for with District tax dollars

*For comparison purposes, includes charity care, unreimbursed Medi-Cal, and other unreimbursed health care services to the poor and indigent.

Recommendations

Recommendation 1

1. Request the District to implement improvements in governance, transparency and public accountability:

- a. Limit automatic contributions to El Camino Hospital Corporation for expenses other than debt service and capital improvements;
- b. Seek a legal interpretation of the Gann Appropriation Limit and its applicability to ECHD, and modify budgeting practices accordingly;
- c. Establish a competitive process for appropriating community benefit dollars, to ensure that funds are used to more directly benefit District residents;
- d. Implement changes to the budget process: clear articulation of financial, budget and reserve policies; budgeted and actual revenues/expenditures by purpose, program and line item; staffing and compensation; community benefit program expenditures; etc.
- e. Evaluate and report on professional services agreements;
- f. Review and revise code of ethics and conflict of interest policies, to ensure the District avoids perceived or actual conflicts of interest.

If not implemented within 12 to 18 months, request the District to initiate actions to separate the District and Corporation boards to ensure that the District's mission is not compromised by competing corporate interests.

Recommendation 2

2. **If the prior recommendations are not initiated within six months of the request for governance change or if the Corporation further expands services beyond the District boundaries, begin actions toward dissolution of the El Camino Hospital District:**
 - a. Make determinations in accordance with GC Section 56035:
 - i. Public service costs are likely to be less than or substantially similar to the cost of alternative means of providing services; and,
 - ii. A change of organization promotes public access and accountability for community services need and financial resources.
 - b. Identify a successor agency to implement the wind-up of the District, in accordance with GC Section 57451.

Rationale for Recommendations:

- Maintaining the status quo without improvements in governance, transparency and public accountability would result in continued concerns regarding the need for District revenue contributions to go toward a non-profit corporation that no longer appears to be in need of taxpayer support.
- Neither the District nor the Corporation provide remarkable levels of community benefits to District residents, when compared with other healthcare districts in the State and with other hospitals within Santa Clara County.
- Continuation of taxpayer support, without broadening community benefit contributions beyond the Corporation and its affiliates, does not provide assurance that District residents receive an appropriate return on investment. In addition, it creates equity concerns, since approximately 57 percent of all inpatient services and 46 percent of all emergency services are provided to non-District residents, who are not taxed.
- Because the District serves as the “sole member” of the Corporation, the acquisition of the Los Gatos Hospital complicates the purpose of the District and, by extension, the Corporation. Further, the District made indirect monetary contributions to the Corporation that allowed it to use unrestricted net assets for the Los Gatos campus acquisition. A more distinct separation of the two entities would ensure greater public accountability.
- The separation of the entities and disposition of assets and liabilities would be complex. Therefore, before embarking on a path toward dissolution, Santa Clara County LAFCo should make an effort to encourage the District to implement suggested reforms.